



DEPARTMENT OF STATE

Washington, D.C. 20520

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June 26, 1981

MEMORANDUM FOR MR. RICHARD V. ALLEN
THE WHITE HOUSE

SUBJECT: National Security Council Meeting on June 30
on East-West Economic Relations

The attached paper is for the NSC discussion of East-West energy issues: (a) Security Controls on Exports to the USSR; (b) Controls on the Export of Oil and Gas Equipment and Technology to the USSR; (c) The Siberian Pipeline; and (d) the License for Caterpillar Company to Export 100 Pipelayers to the Soviet Union.

L. Paul Bremer, III
L. Paul Bremer, III *for*
Executive Secretary

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State Dept. review completed

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INSTRUCTIONS APPLY

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**USSR-Western Europe:
Smaller Gas Deal Possible**

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Recent reports indicate that Moscow is considering a scaled down version of the Siberia-to-Western Europe gas pipeline project. Although we have no official confirmation of a definite decision, the Soviets have indicated a desire to build a single 75-atmosphere line instead of the twin-line system being planned as late as March. The second line could still be built in the late 1980s. With only the single line, gas might begin flowing to Western Europe by 1985, one or two years earlier than under the twin-line system. Soviet hard currency receipts from gas exported through the scaled down system would start sooner but would be only about half as much as with the two lines; thus it would not go as far to make up for the expected decline in oil export earnings

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Evolution of the Project

The pipeline project proposal still calls for a 20-year delivery of Siberian gas to Western Europe, but the scale of the project has changed since its inception in 1979. The project initially was to consist of one 56-inch, 100-atmosphere pipeline that could transport more gas than other Soviet trunklines, which operate at 75 atmospheres. This single-line system could have moved up to 4.8 billion cubic feet per day (cf/d), with 3.9 billion cf/d earmarked for Western Europe. The original proposal called for gas to be piped 5,000 kilometers from the undeveloped Yamburg field to West Germany, France, Italy, Austria, Belgium, and the Netherlands. Because of the reluctance of the Soviet Gas Ministry to operate a pipeline at the unprecedented 100 atmosphere pressure, by late 1980 Moscow reportedly had

¹ This article updates an earlier Intelligence Assessment, *USSR-Western Europe: Implications of the Siberia-to-Europe Gas Pipeline*, ER 81-10085/Pa 81-10107, March 1981.

swung to favoring a twin-line system, with each line at 75 atmospheres. This system could transport 5.8 billion cf/d, of which 4.6 billion cf/d could be delivered to Western Europe and the remainder to Eastern Europe

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In recent weeks Moscow reportedly has expressed considerable interest in yet a third variation. Under this scheme, a single 75-atmosphere line would be built from the Urengoy field—already in production—rather than the more distant Yamburg field. Initial deliveries probably could start in 1985, one or two years earlier than if twin lines were built. The single line would have a capacity of about 3 billion cf/d.

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Total Soviet gas deliveries to Western Europe—project exports plus existing contracts—would reach only 5.3 billion cf/d under a single-line project, instead of 7 billion cf/d under the previously planned system. Total Soviet gas earnings would be 25 percent less than the \$16 billion possible if the twin-line project were undertaken

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The impact of a smaller single-line project on Eastern Europe is difficult to determine. Czechoslovakia probably would not receive gas from the single pipeline, but the Soviets could still provide compensation for using the Czechoslovak right-of-way by extending one of its other domestic pipelines to the Czech border

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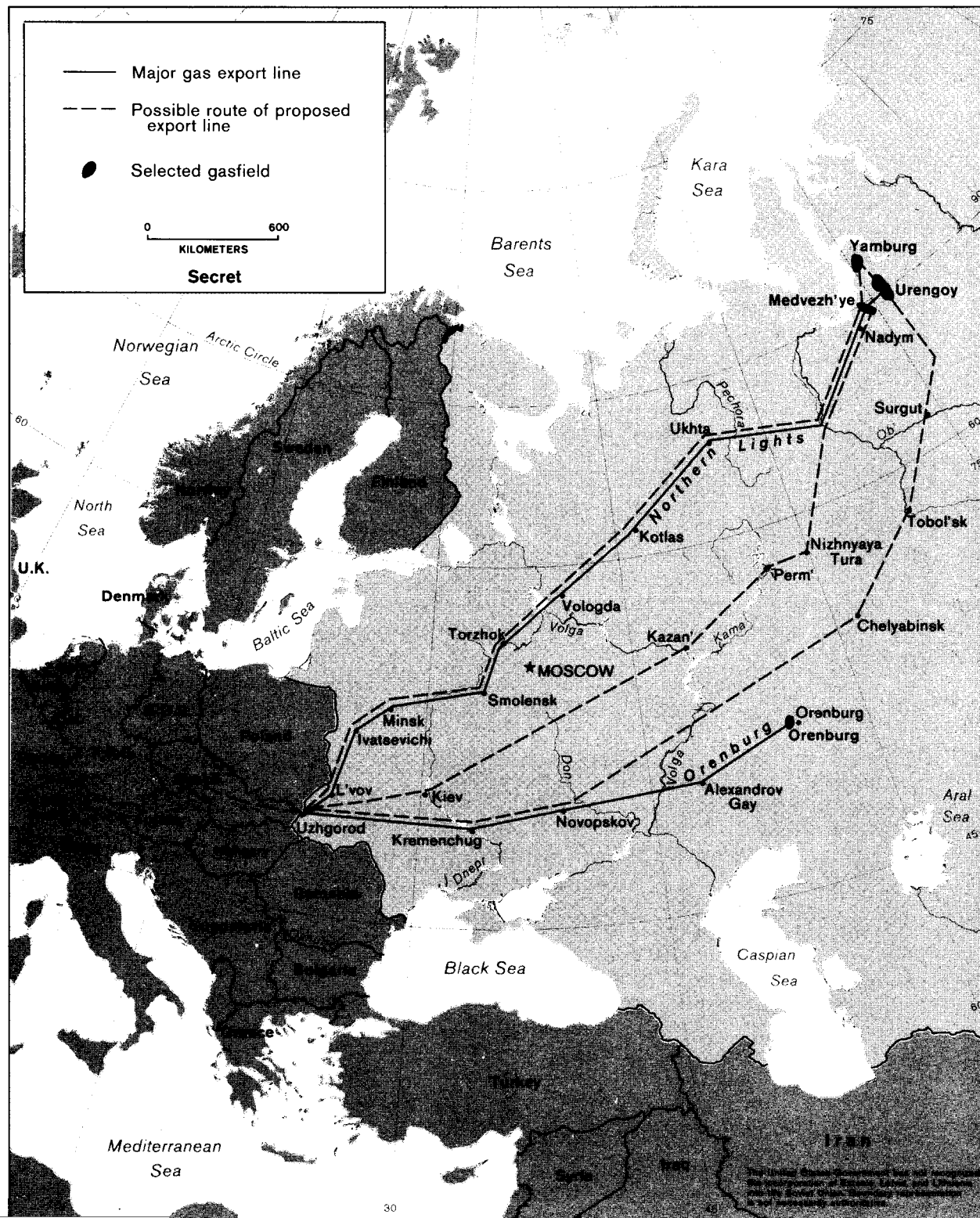
Drawn-Out Negotiations

Progress in concluding a gas deal with Western Europe has been stalled because of disagreements over project financing, gas pricing, and by Moscow's

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Soviet Union: Major Gas Export Pipelines



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failure to decide on the trunkline system's capacity and route. The key West German banking consortium—which could provide a major portion of the financing for pipeline equipment purchases—and other Western banks have so far rejected Soviet demands for a 7.75-percent interest rate. With West German interest rates at roughly 13 percent, the Soviet proposal would represent an interest rate subsidy unacceptable to the West Germans. The West Europeans have also rejected a Soviet demand that gas exports be priced at parity with oil. At parity, Soviet gas prices would approximate \$6 per 1,000 cf, against roughly \$4 currently. A price at least close to parity seems likely, however, given recent gas price agreements in the West. []

Soviet Motives

We do not know why Moscow has decided on a single line, if indeed it has, but several motives are possible:

Pipeline Constraints. Installing sufficient trunkline capacity will be the key to meeting Soviet plans to produce 58.0-61.9 billion cf/d of gas by 1985, compared to 42.1 billion cf/d in 1980. Virtually all production growth will come from linking the huge Urengoy field with the central USSR via seven 56-inch diameter lines with an average length of more than 3,000 km. The Soviets, however, probably will be hard pressed to provide enough skilled labor and equipment to install all the lines and compressor power required, particularly if a twin-line export project is included in Soviet plans. East European labor could provide some assistance, but it also is in short supply. Although much of the work on a single export line would suffice for two, a single-line option would still enable Moscow to reallocate a substantial amount of resources to domestic pipeline construction. Moreover, Western suppliers of large-diameter pipe, critical to increased Soviet gas production, may not have sufficient capacity to meet the surge in Soviet orders stemming from Moscow's ambitious 1981-85 pipe-laying plans. []

Yamburg Delayed. Development of the Yamburg field, the Soviets' second-largest gas deposit and originally the proposed source for the project's gas exports, has been postponed. Investment constraints and technical problems—including the difficulty of installing pipelines in permafrost from the more remote Arctic field—apparently have persuaded Moscow to schedule Yamburg for substantial production for the late 1980s instead of 1985 as reportedly planned last year. During the current five-year plan, Urengoy will provide all the growth in gas output and the initial deliveries for the export project. Although Urengoy has sufficient gas for both domestic consumption in the mid-1980s and 25X1 the twin export lines, Moscow may prefer only one line for that period in order to provide a margin for error in the field's projected pace of development []

Western Interest. Aside from these considerations, 25X1 Moscow may now perceive that West European interest in Soviet gas has slackened. The new French Government is reviewing its energy policy, and although it probably will participate in the project, it could decide to reduce its gas imports under the deal. West Germany remains committed to the pipeline but has also begun a reappraisal of its increased dependence on Soviet gas. West European perceptions of the extent and nature of the energy problem and future energy needs may also be changing as a result of the current soft oil market. []

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An Early Start

Moscow probably realizes that a scaled down project is the best way of getting an early start on some sort of gas export deal. Continuing delays in coming to an agreement with prospective West European customers would further postpone the time when hard currency earnings would flow from the project. If, as we believe, Soviet hard currency revenues from oil will have largely disappeared by 1985, the urgency of completing negotiations is obvious []

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Secret**Implications for Western Europe**

The amount of gas flowing to West European customers by the mid-1980s would be only one-fourth less under the single-line proposal. Although the six countries participating in the deal might not be able to reduce their reliance on Middle Eastern oil as rapidly as desired, West Germany and France, having expressed possible reservations about excessive dependence on Soviet gas, might be more amenable to the single-line project. Additional gas in any case probably will be available from Algeria, Nigeria, and Norway. A negative aspect of the single-line project would be a reduction in sales to the USSR of pipe, compressors, and related equipment from a potential \$14 billion for the larger transport system to perhaps \$10 billion.

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SECRETNSC DISCUSSION PAPER

There are four separate papers which address the major issues in East-West trade.

1. Security Controls on Exports to the USSR. This paper presents three options for strengthening Allied security controls on exports to the USSR. Current U.S. law distinguishes long-term security controls (on "goods and technology which would make a significant contribution to the military potential") from more variable foreign policy controls (which are used for punishment, signalling, and leverage). This paper does not address foreign policy controls. Oil and gas equipment and technology, which is now subject to foreign policy controls but might be considered for coverage under security controls, is the subject of a separate paper. Security controls on exports to Eastern Europe and to China will also be the subject of separate papers.

The three options for Allied (COCOM) security controls on exports to the USSR are:

- I) Restrict technology and equipment critical to military production and use;
- II) In addition to I, restrict technology and equipment critical to production in "defense priority industries" which, through development, would significantly enhance Soviet military capability; ("Defense priority industries" would include primarily metallurgy, chemicals, heavy vehicular transport, and shipbuilding, for which there is little present COCOM coverage, and would exclude primarily consumer industries); and
- III) In addition to II, restrict all items for use in these industries.

Option I would not differ greatly from the status quo. COCOM controls on technical data might be strengthened. The objective of options II and III, especially III, would be to slow Soviet economic growth, thereby reducing resources available for consumption, investment, and defense. The difference between options II and III is profound. For example, option II would restrict advanced technology not already in Soviet hands for specialty steels used by the military whereas option III would hold back entire steel mills that produce general purpose steel.

Economic costs to the West would be considerably higher for option II than for option I and considerably higher for option III than for options I and II. Options II or III would

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cause some consternation among our Allies. Option III would be seen as particularly threatening to Western basic industries, especially steel, where unemployment is already high.

Our Allies will resist additional controls unless they are technically precise and we present evidence of military significance. Selling options II or III would require personal efforts by the President and key members of the cabinet.

U.S. industry supports the control of militarily critical technologies but opposes controls which would not apply equally to foreign competitors.

The Export Administration Act encourages exports except for necessary restrictions which would clearly further fundamental national interests.

2. Controls on Export to the USSR of Oil and Gas Equipment and Technology. The issue is what policy the United States should adopt on controlling oil and gas equipment and technology exports to the Soviet Union. Should the United States treat Soviet oil and gas development and exports to Western Europe as a national security concern?

APPROACH: The Administration's decision on this issue should take into account:

- the extent to which we wish to impede Soviet energy development and exports;
- the political costs vis-a-vis our Allies we are willing to pay in pursuit of this policy; and,
- the extent to which we wish to control export of technology.

In order to make those options that restrict energy exchange with the Soviet Union both effective and equitable, the U.S. should present a substantial incentives package which will contribute to Allied energy security. Such a package should aim at increasing alliance access to additional sources of energy and at furthering sustained Alliance cooperation on energy security concerns.

Option I: The U.S. will actively impede Soviet oil and gas production and export projects. The U.S. will impose national security controls on, and deny exports licenses for, all oil and gas equipment and technology. We will use our available leverage to pressure our Allies and friends to adopt similarly restrictive measures.

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Option II: The U.S. will attempt to impede Soviet oil and gas production and export projects. Recognizing that our Allies and friends may not follow suit without unacceptably high political costs, we will use less leverage than in Option I. We would consider, after consultations with our Allies, adopting a multilateral approach less restrictive than implied in Option I. Until this is worked out, the U.S. will deny export licenses for technology and equipment.

Option III: The U.S. is most concerned about major Soviet projects which contribute to Soviet production capability and our Allies' vulnerability to Soviet energy leverage (e.g., West Siberian Pipeline). The U.S. will make a major effort with other countries to restrict exports of equipment and technology for such projects. Until this is worked out, the U.S. will deny all technology and end-use equipment exports for major projects while approving end-use equipment exports not for major projects.

Option IV: Rather than attempting to impede oil and gas production and exports, our goal will be to deny exports of technology that allows the Soviets to replicate advanced Western equipment; this technology would give them an independent capability to improve oil and gas output and infrastructure. The U.S. will approve exports of end-use equipment.

Option V: The U.S. will lift special foreign policy controls on the export of oil and gas technology and equipment. (Existing strategic controls under COCOM will remain in place, some of which may incidentally cover equipment and technology for oil and gas production and exploration).

3. U.S. Position on the Siberian Pipeline. The issue is what position the U.S. should adopt towards the proposed pipeline designed to supply Siberian natural gas to Western Europe?

Option I: The U.S. will signal its disapproval of the project by denying all exports to the USSR for the pipeline, and press our Allies to cancel further project negotiations.

Option II: The U.S. will communicate to our Allies and friends that we oppose the project, will withhold relevant export licensing, and encourage them to do the same, until our Allies have committed to constructing an adequate safety net of emergency supply.

Option III: The U.S. recognizes its inability to cancel or significantly delay the pipeline project. The U.S. will, however, work with its Allies and friends to minimize the strategic implications of the project.

Option IV: Adopt a laissez faire approach on the pipeline, allowing market considerations to determine European energy import and energy security policies.

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4. License for Caterpillar Company to export 100 pipelayers to the Soviet Union. The issue is, should the United States Government grant a license to the Caterpillar Tractor Company for the export of 100 pipelayers to the Soviet Union? The Caterpillar application states that the 100 pipelayers would be used as replacement units on the following projects:

-- 30 units for use in West Siberia on construction of main and feeder lines of the Urengoy project to carry gas from West Siberia to Moscow;

-- 25 units for use in Central Asia on construction of a local oil pipeline;

-- 45 units for use in European USSR on the western end of the Urengoy project from Yaroslavl to Polotsk.

Under the time limits for licensing decision set forth in the Export Administration Act of 1979, the Government has until early August to decide this case. However, Caterpillar has already missed contract delivery deadlines and feels that it must have an early decision in order to prevent Soviet cancellation of the contract, and consequent Japanese replacement sales to the USSR. Komatsu, a Japanese firm, is currently the only non-U.S. producer of pipelaying equipment and has sold over 500 pipelayers to the USSR in the past ten years.

Option I: Deny the Caterpillar export license application.

Option II: Deny export license application if Japanese agree to stop similar sales by Komatsu.

Option III: Approve the Caterpillar Export license application.

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POLICY OPTIONS PAPER

Security Controls on Exports to the USSR
Executive Summary

This paper presents three options for strengthening Allied security controls on exports to the USSR. Current U.S. law distinguishes long-term security controls (on "goods and technology which would make a significant contribution to the military potential") from more variable foreign policy controls (which are used for punishment, signalling, and leverage). This paper does not address foreign policy controls. Oil and gas equipment and technology, which is now subject to foreign policy controls but might be considered for coverage under security controls, is the subject of a separate paper. Security controls on exports to Eastern Europe and to China will also be the subjects of separate papers.

The three options for Allied (COCOM) security controls on exports to the USSR are:

- I) Restrict technology and equipment critical to military production and use;
- II) In addition to I, restrict technology and equipment critical to production in "defense priority industries" which, through development, would significantly enhance Soviet military capability; and
- III) In addition to II, restrict all items for use in these industries.

"Defense priority industries" would include primarily metallurgy, chemicals, heavy vehicular transport, and shipbuilding, for which there is little present COCOM coverage, and would exclude primarily consumer industries.

Option I would not differ greatly from the status quo. COCOM controls on technical data might be strengthened. The objective of options II and III, especially III, would be to slow Soviet economic growth, thereby reducing resources available for consumption, investment, and defense. The difference between options II and III is profound. For example, option II would restrict advanced technology not already in Soviet hands for specialty steels used by the military whereas option III would hold back entire steel mills that produce general purpose steel.

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U.S. industry supports the control of militarily critical technologies but opposes controls which would not apply equally to foreign competitors.

The Export Administration Act encourages exports except for necessary restrictions which would clearly further fundamental national interests.

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BACKGROUND PAPERS

1. Security Controls on Exports to the USSR
2. Controls on the Export of Oil and Gas
Equipment and Technology to the USSR
3. The Siberian Pipeline
4. License for Caterpillar Company to Export
100 Pipelayers to the Soviet Union.

POLICY OPTIONS PAPER

Security Controls on Exports to USSR

Introduction

Economic relations in general, and trade relations in particular, with the Soviet Union and the East should be conducted within the broad political-security objectives of the Western alliance. The Soviet Union remains the principal threat to Western security and will remain in the posture for the foreseeable future. A large share of the Soviet Union's GNP goes to support the military. The enhancement of Soviet military strength coincides with aggressive Soviet foreign policy -- Afghanistan invasion, visible threats to Poland, theater weapon deployment in Europe (SS-20s) and support for leftist revolutions and terrorism. The Soviets have also recently intensified efforts to gain access to sophisticated Western technology.

In light of Soviet actions and intent, the United States must review its security control policies for exports of goods and technology to the USSR and develop a reasonable approach to controls that can be presented to the Allies.

An important purpose of the current policy review is to structure controls on exports to the USSR in a manner that is clear and predictable to American business and our Allies and which at the same time will safeguard our national security. Clearly, the present system is unwieldy and needs extensive improvement. A streamlined system will more likely gain support domestically Objectives and Approach from U.S. firms and internationally from Allies.

United States objectives vis-a-vis the Soviet Union in trade and export control policies should be reviewed within such broader U.S. objectives for East-West economics relations as:

- nurture cooperation among the Western Allies and enhance the commonality of Alliance purposes and approaches toward the Soviet Union;
- strengthen Western defenses in order to deal with the reality of a rapid Soviet buildup in military power;
- counter both direct and indirect projection of Soviet power;
- encourage Soviet behavior that contributes positively to a pluralistic, free and peaceful world.

There are contrasting policy approaches ranging from the concept that security is enhanced by slowing the Soviet rate of growth to the concept that there are Western security benefits from trade in products not contributing directly and significantly to Soviet military capabilities. Having said this, however, there remain

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fundamental and important questions about the process of how to implement these policies. These range from fewer controls on exports to stricter controls. In any event we should seek less ambiguity about what constitutes permissible exports than at present.

During this decade the Soviet Union faces increasing economic problems: manpower shortages, energy squeeze, declining capital investment and labor productivity. In framing trade policies the Allies should consider the extent to which Western exports might ease Soviet resource constraints and facilitate the support of defense and other militarily relevant sectors, such as metallurgy and chemicals.

There is some evidence (Kama River) that Western exports of technical data and products not associated with weapons systems have a significant impact on Soviet military strength. Soviet imports of machinery and equipment from the West are rising and now contribute around 10% of total Soviet investment in this category. U.S. efforts to expand security controls substantially beyond those directly and significantly related to Soviet military potential would probably not be accepted by our Allies, without the highest levels of our government involved.

Once attention has been focused on the national security importance of a coherent export control policy vis-a-vis the USSR, the prospect for allied cooperation can be improved by carefully justified and precise proposals. Then support must be aggressively sought for these proposals with senior allied defense and national security officials. Foreign economic and trade ministries must also be consulted since economic and commercial considerations are sometimes given equal or more weight among the Allies than security factors. Additionally, any disunity among the Allies can be exploited by the Soviets for political advantage. As we implement one of the policy options below, we will consider the extent to which we can shift our emphasis from controls on equipment to controls on critical technologies, as advocated by J. Fred Bucy. End products often satisfy short-term goals, while leaving the consuming country dependent on continued imports, whereas the sale of technology confers a new capability. In the final analysis, we may be able to decontrol some end products while strengthening controls on technologies.

Policy Options

Three separate policy options are presented.

Aside from the policy pursued, a fundamental tenet of any option chosen must be to achieve consistency and predictability as well as clarity and specificity of U.S. controls, both for American business and our Allies.

The three options presented below: each successive option envisages additional controls. Selection of any of the options presupposes discussions and negotiations to sell the U.S. position in COCOM and to use other appropriate fora, such as NATO, to gain support.

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I Restrict technology and equipment deemed critical to military production and use

This option would cover commodities with substantial potential for military utilization, critical technology and keystone production equipment beyond Soviet capabilities directly related to the performance of Soviet weapons systems. The list of such militarily critical technologies being prepared in Defense may provide a basis for Commerce in cooperation with Defense to develop technically precise proposals to revise the COCOM list. This option would strengthen current COCOM controls on technology (technical data section). It would permit deletion of controls on some end-use products, which do not have significant military applications and for which production technology is not easily extractable. A case in point would be the export of some semi-conductors (e.g., transistors, diodes and microcircuits) the liberalization of which could be coupled with further strengthening of controls on critical technology (keystone equipment, materials, and process know how) which are necessary for their production. We would aim to make permanent the no-exceptions policy to the COCOM list originally intended as a temporary response to the invasion of Afghanistan.

II In addition to I, restrict technology and equipment critical to production in defense priority industries which, through development, would significantly enhance Soviet military capability

This contrasts with option I by also including items and know-how not primarily related to production for direct military consumption but also production which can be used in military sectors. Industries to be covered would include metallurgy, chemicals, heavy vehicular transport, and shipbuilding, for which there is little present COCOM coverage. This option would exclude primarily consumer industries.

III In addition to I and II, restrict all items for use in defense priority industries

This approach goes beyond advanced technology and targets these same industries in their entirety. The difference is profound. Under option II a steel mill could be sold providing there is no transfer of know-how of militarily useful steel alloys not already in Soviet hands; under option III we would hold back on the steel mills that produce general purpose steel.

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Background

Security controls are long-term, relatively constant measures which, under current U.S. law, are applied to "goods and technology which would make a significant contribution to the military potential" of U.S. adversaries. This law distinguishes security controls from foreign policy controls, which are more variable measures imposed to further political objectives.

U.S. security controls closely parallel allied controls, as agreed in COCOM, the "Coordinating Committee" of NATO countries and Japan. The shared recognition of the Soviet military threat and the desire to prevent competition in the sale of war-production goods to the Communists have kept COCOM intact for over thirty years, although it is based on no treaty and has no power to sanction any member that violates its rules.

The COCOM list now covers munitions, atomic energy equipment and materials, dual-use (civilian/military) equipment and materials primarily in the computer, electronics, and machine tools areas, and technical data related to the foregoing. Exceptions to the controls may be approved at national discretion for the low performance end of the spectrum; but exports of higher performance listed goods and technology require unanimous agreement within COCOM. In the past, most exception requests were approved; but, following the invasion of Afghanistan, the U.S. won de facto allied acceptance of a policy of approving no exceptions for exports to the USSR.

COCOM did not accept the U.S. post-Afghanistan proposal for informal consultation concerning plant and technology exports which would advance the growth of sectors of the Soviet industrial base that contribute indirectly to military strength. Our Allies criticized the proposal's lack of specificity. The United States recently submitted a proposal to add to the COCOM list three specific items in the metallurgy sector.

Securing a strengthened security control policy among our Allies, which is implied with the selection of any of the three options, will require an understanding at the highest levels as to the direction in which the alliance will move in strategic trade with the USSR. Effective restraint of high technology transfers to the USSR by COCOM members will require consultations with economic and trade ministers as well as defense leaders and NATO.

Attachments

1. Impact on Soviet military potential
2. Allies' attitude toward controls
3. Impact on U.S. and Western economy

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SECRETIMPACT ON SOVIET MILITARY POTENTIAL

The Soviet Union has had a high degree of success in developing its military capabilities. This has been achieved through a combination of indigenous efforts and Western technology; much Western production equipment and technology having military relevance either is not controlled or leaks through illegal trade and clandestine channels. The impact of these items on Soviet military potential is difficult to measure, but withholding them would certainly help to restrain industrial growth and productivity supporting the military sector.

Option (I) Restrict technology and equipment deemed critical to military production and use

A more refined assessment of the military impact could be made when a definitive list of critical technologies becomes available. This option would continue approximately the current level of impact on Soviet weapons manufacturing industries.

Option (II) Option I plus restriction of technology and equipment deemed critical to production in defense priority industries which, through development, would significantly enhance Soviet military capability

This option would sharpen the COCOM controls in advanced technology for industrial sectors that support military production, and would more clearly define controls on technical data.

It would also create a technology gap in industrial sectors largely unaffected by current controls, thus forcing the Soviets to expand and diversify R&D efforts to stay abreast of the West, delaying and impeding progress (as well as reducing reliability) in at least some military development and production programs. The military impact of this option would be cumulative and longer-term. Examples of additional COCOM coverage which might be negotiated under this option would be advanced technology for steel mills and for large floating drydocks (useful for the repair of not only merchant marine vessels but also large combat vessels such as the Soviet Kiev class helicopter carriers or the new nuclear-powered cruiser Kirov).

Option (III) Options I and II plus control all items for use in defense priority industries (e.g. metallurgy, chemicals, heavy vehicular transport, shipbuilding, etc.)

This option would have significant additional effect (beyond the first two options) in these militarily related industries. In the short-run this would contribute to the slowing of Soviet economic growth, thereby reducing the total resources available for consumption, investment and defense. Under these conditions a constant (or increasing) rate of military expenditures could be maintained only at the expense of the Soviet consumer. Examples of additional coverage would be entire turn-key projects, such as all items for the Kama River Truck Plant and for ferrous and non-ferrous production facilities even if the Soviet Union possessed the technologies involved.

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ALLIES' ATTITUDE TOWARD CONTROLS ON EXPORTS TO THE USSR

Western Europe and Japan have encouraged trade with the USSR for both economic and political reasons since the early 1950's. Western European governments have often promoted it as a long-range means to better East-West relations. They view the Soviet Union as a natural market for their industrial products, especially capital equipment and as an important source of energy and other raw materials. They accept controls over specific strategic items, but they typically expect to decontrol items which become technologically less critical. Proposals for new export controls must bear the burden of proof. Historically COCOM governments have accepted new controls when the military importance is clearly demonstrated or when the controls will have little effect on European and Japanese firms.

Since the invasion of Afghanistan, several COCOM governments have expressed their willingness to consider additional precisely defined controls on technology transfers to the Soviet Union provided the U.S. could demonstrate their strategic relevance in an area of Soviet technological deficiency.

Option I, which is little more than a reaffirmation of current COCOM controls plus making permanent the "no-exceptions" policy on exports to the USSR, would probably be accepted by our allies, since basically it's the status quo. It would permit some strengthening of controls on technology transfers as well as permitting deletion of some controls on end-use products which do not have significant military applications. The trade effect of Option I is probably neutral in the sense that there would be no significant additional impact on allied exports (compared to post Afghanistan levels).

Options II or III would cause some consternation among our allies since they would affect a larger part of Western industrial exports to the USSR. Option III would be seen in Western Europe as particularly threatening to their basic industries (especially steel) and their capital good sectors, where unemployment is already high. If the items or projects proposed for control are available to the USSR from non-COCOM sources, even at higher cost, Western Europeans will probably resist any new controls. Since industrial exports to the USSR are less important to the U.S., both absolutely and relatively, than to the FRG, France, and Italy, it will be politically difficult to gain European acceptance to a substantially tightened controls policy.

Industrial trade with the USSR is less important to Japan than to the major industrial countries of Western Europe, but more important to Japan than to the U.S. The Japanese were more cooperative than most Europeans in observing sanctions imposed after the Soviet invasion of Afghanistan. Japan, nevertheless, probably will not accept sharper controls for strategic purposes unless the major

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European Allies clearly support them. Japan believes there is considerable scope for expanding exports to the Soviet market, especially for the economic development of Siberia, and will scrutinize closely the actions of its competitors before agreeing to tighter controls.

New controls are thus much more likely to be accepted if they would (1) affect a small proportion of our Allies' current exports, (2) clearly demonstrate, through well justified and technically precise proposals, a direct or significant indirect effect on Soviet military potential, (3) cover items not available from non-COCOM sources, and (4) avoid appearing to shift commercial advantages among COCOM members. An approach to strategic controls, targeted to military applications and those industrial sectors clearly supporting military applications, is the most likely to be accepted.

Coordination with Our Allies

Given the present economic crisis in Western Europe, with the highest unemployment since World War II, even modest changes in controls will require thorough technical justification and a major effort at high political levels. If we wish to move toward more sweeping controls, we should expect to undertake an intense process of education to persuade our Allies at Presidential and Ministerial levels of the overriding need to strengthen the controls and the relevance of the proposed measures to increased security. Since decisions on export control policies are made in Western Europe by political parties and economic ministries, rather than defense ministries, it will not be sufficient for the U.S. to convince the latter (which are, in many cases, more sympathetic to U.S. views on security controls).

The U.S. has little effective economic leverage to speed up the education process. U.S. trade concessions to Western European countries are balanced by concessions they give us; a withdrawal of U.S. GATT commitments would inevitably lead to retaliation. The \$20 billion trade surplus we enjoyed with the European Community in 1980 is based in part on concessions which European governments find inconvenient (e.g., existing tariff levels on soybeans, feed supplements, petrochemicals, synthetic fibers, textiles).

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Withholding of existing technical or military cooperation could reduce alliance capability although withholding certain advanced military technologies (Data Exchange Agreements, etc.) may provide the U.S. some leverage. The allies could well react strongly to any attempt to coerce their cooperation; the result would then be less cooperation on other issues, including force enhancement. It might be more effective to make offers of new technology conditional upon expanded controls, if we are confident that the benefits of the new controls would be greater than the costs to our security of delaying our allies' military modernization, and if we are confident that this would not be portrayed publicly as undercutting our allies. U.S. industry would react favorably to this approach since they perceive transferring technology without selling military equipment as losing market share.

There are some signs that the climate for more restrictive proposals within the alliance may be improving. Mrs. Thatcher seems receptive to our overall security objectives. The French use their relations with the Soviets as an opportunity to demonstrate their independence from American policy, but they share with us many strategic concerns and may well be moving toward a more compatible course. The Italian attitude is conditioned in part by the strength of the Italian Communist Party. The Japanese view access to Soviet raw materials as important to their future development, but they are wary of the risks of overinvolvement. Even the Germans, who have been wedded so closely to Ostpolitik, appear to be a little more on the defensive. All this is not to say that the allies would leap to embrace our proposals, but simply that we should not set our sights too low in advance.

What all of the allies have in common is a keen sense of commercial competition. They resist being talked into partial measures whose sole effect, they suspect, is to hand over a sale to another country's exporters. The nightmare shared by virtually all of their trade officials is restraining one of their own companies from making a sale to the Soviets, only to read in the newspaper that the sale has gone to the French or the Germans. This, alas, has happened. The Soviets and their Warsaw Pact partners have exploited these fears very skillfully, creating upward-ratcheting political and economic pressures.

U.S. proposals for new controls will require a major effort to persuade the allies, no matter which of the three options is selected. Even new technology controls under Option I will probably not be agreed unless they are technically precise and we present evidence of military significance. A permanent "no exceptions" policy under Option I may be difficult to achieve without a reduction of coverage from the present COCOM list. Selling Options

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II or III will require personal efforts by the President and key members of the Cabinet. In addition, we would have to make our case for such controls with key economic policy officials and defense ministers in allied capitals, while at the same time presenting precise proposals and careful technical arguments in COCOM.

There is one other aspect to the problem which concerns the legal ability of the allies to control technology transfers absent equipment controls. U.S. interests in strengthening technology controls must recognize this possible allied constraint.

In the end it seems possible to reach an allied consensus if we successfully build upon genuine and common concerns for security while assigning due weight to the economic interests at stake.

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Attachment 3

ECONOMIC IMPACT ON U.S. AND WESTERN COUNTRIESSummary

The economic impact on COCOM countries of the various options for refined security controls on exports to the USSR would vary substantially among options as well as among countries.

According to the methods used to estimate trade impact associated with the three options, it is estimated that the direct trade effect (1979 pre-Afghanistan base) on all COCOM countries would be as follows (on a yearly basis):

Loss of trade: (I) \$423 million; (II) \$845 million, and (III) \$1.7 billion. The corresponding number of jobs (1979 base) associated with this trade loss for COCOM countries collectively is: (I) 19,838 jobs; (II) 39,646 jobs; and (III) 79,322 jobs.

Countries hardest hit among COCOM would be Germany, France, Italy and Japan, both in terms of trade and job loss.

Methodology

The following describes the methodology used in estimating the economic effect of the three options for tightening security controls on exports to the USSR.

For an approximation of the order of magnitude of "high technology exports" to the USSR, the commodity categories (SITC basis) listed in Table I were selected. There is general agreement that this list encompasses virtually all U.S. and allied high technology exports. COCOM exports in these goods to the USSR in 1979 totaled \$1.7 billion. This figure understates the importance of such technology transfer trade to the USSR since it does not include the value of technical data transfers, except to the extent that it is included in the price of the product export. Conversely, it overstates the amount of high-technology trade since the categories are broad and include some low-technology items in the baskets.

The principal economic effects on the west from tightened controls would be reductions in (1) income from exports related to stricter COCOM controls and (2) employment associated with the reduced exports of technology (either as technical data or equipment). In order to estimate the possible economic impact of the policy options, the following assumptions were made:

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- (1) COCOM exports of high technology products to the USSR would fall by 25% from 1979 levels (pre Afghanistan) under Option I;
- (2) COCOM exports of high technology products to the USSR would fall by at least 50% from 1979 levels under Option II;
- (3) COCOM exports to the USSR of high technology products would be eliminated under Option III.

The trade and employment effects for the COCOM countries (except Greece, Portugal and Turkey) are summarized in Table 2.

The bulk of the reduced trade falls on the key industrial nations, e.g., Germany, Japan, France, and Italy. German exports of high technology products to the USSR would be affected within a range from about \$150 million to slightly more than \$600 million depending upon the option. The effect on Japanese exports falls within a \$80 to \$325 million range for the three options, while French and Italian exports affected range from \$60-250 million and \$50-200 million, respectively. The corresponding employment effects range from a high of from 5,000-20,000 in Germany to 3,000-11,000 in France. Both the United Kingdom and the United States are affected less than the other four countries (see Table 2). Impact on the remaining COCOM members is slight, both in trade and employment terms.

The trade and employment effects are estimates from a 1979 base and are believed to be reasonably indicative of the impact of the three options. Even if the figures were off by a factor of two or more, due to a particularly large project in any given year, employment and trade effects for COCOM as a portion of total trade and employment would remain small. This seems particularly unlikely since the Soviets tend to import to make up shortfalls in production or for reverse engineering purposes.

It is not surprising that the European nations and Japan are most affected by tighter controls. What is surprising is the relatively modest impact of either Option I or II on total trade or employment which seems to suggest that the economic trade off for tighter national security controls vis-a-vis USSR might not be as difficult, once it is defined, as sometimes suggested. Indeed to the extent that high technology products are capital vs labor intensive the employment impact may be overstated.

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HIGH TECHNOLOGY PRODUCTS

GROUP/SITC#

DEFINITIONAerospace

71142	Jet and Gas Turbines for Aircraft
7341	Aircraft, Heavier-than-air
73492	Parts of Aircraft, Airships, etc.

Computers

7142	Calculating and Accounting Machines, etc.
7143	Statistical Machines - Cards or Tapes
71492	Parts of Office Machinery, N.E.S.

Machinery

7116	Gas Turbines, Other than for Aircraft
7151	Machine - Tools for Working Metals
71523	Gas-operated Welding, Cutting etc., Appliances
7185	Mineral Crushing etc, and Glass-working Machinery
71852	Machinery and Appliances-non Electrical - parts
71911	Gas Generators
7192	Pumps and Centrifuges
71952	Machine - Tools for Working Wood, Plastics, etc.
71954	Parts and Accessories of Machine - tools
7197	Ball, Roller or Needle-roller Bearings
7199	Parts and Accessories of Machinery, N.E.S.
7296	Electro-mechanical Hand Tools

Electrical

7249	Telecommunications Equipment, N.E.S.
72911	Primary Batteries and Cells
7293	Thermionic Valves and Tubes, Transistors, etc.
72952	Other Electrical Measuring and Controlling Instruments

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TABLE 2
SUMMARY OF TRADE AND EMPLOYMENT EFFECTS
(Strengthened Security Controls on High Technology Exports to USSR)
1979

Country	Total Trade (\$ Mil)	Labor Force (mil)	Unemployment (%)	High-Tech Trade (Loss)			Employment (Loss) High-Tech			GNP (\$Mil)
				I	II	III	I	II	III	
				----- \$ Mil -----			----- (Persons) -----			
<u>Europe</u>										
Belgium	56,250	4.5*	6.5	2.2	4.5	8.9	100*	200*	375*	112,316
Denmark	14,613	2.7*	5.5*	3.0	6.0	12.0	155*	275*	600*	58,927
France	100,700	22.5	5.9	62.2	124.4	248.7	2,812	5,625	11,250	502,376
Germany	171,890	25.9	3.0	153.2	306.4	612.8	5,282	10,425	20,850	761,008
Italy	72,230	22.0	7.5	52.3	104.7	209.3	3,552	7,105	14,211	324,050
Netherlands	63,670	4.8	4.5	1.2	2.4	4.8	38	76	153	149,917
Norway	13,470	1.9	2.0	1.5	2.9	5.9	62	125	251	44,477
United Kingdom	91,016	26.0	5.1	22.7	45.3	90.7	1,496	2,992	5,985	393,930
Total Europe	583,039	110.0	--	293.3	596.6	1,193.1	13,427	26,823	53,675	2,347,009
<u>North America</u>										
Canada	58,190	11.3	6.7	5.0	11.6	23.1	294	508	1,176	222,212
United States	181,002	102.9	5.7	36.9	73.8	147.7	1,603	3,207	6,414	2,360,800
Total North America	239,992	114.2	--	42.7	85.4	170.8	1,897	3,795	7,590	2,591,012
Japan	102,300	56.0	2.1	81.5	163.0	326.0	4,514	9,028	18,057	1,010,906
COCOA**	926,131	280.2	--	422.5	845.0	1,689.9	19,838	39,646	79,322	5,949,087

* Estimated

** Excluding Greece, Approved For Release 2008/08/12 : CIA-RDP84B00049R000601570017-0

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POLICY OPTIONS PAPER

Controls on Export to the USSR of Oil and Gas Equipment and Technology

ISSUE: What policy should the United States adopt on controlling oil and gas equipment and technology exports to the Soviet Union? Should the United States treat Soviet oil and gas development and exports to Western Europe as a national security concern?

APPROACH: The Administration's decision on this issue should take into account:

- the extent to which we wish to impede Soviet energy development and exports;
- the political costs vis-a-vis our allies we are willing to pay in pursuit of this policy; and,
- the extent to which we wish to control export of technology.

In order to make those options that restrict energy exchange with the Soviet Union both effective and equitable, the U.S. should present a substantial incentives package which will contribute to Allied energy security. Such a package should aim at increasing alliance access to additional sources of energy and at furthering sustained Alliance cooperation on energy security concerns.

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Option I:

The U.S. will actively impede Soviet oil and gas production and export projects. The U.S. will impose national security controls on, and deny exports licenses for, all oil and gas equipment and technology. We will use our available leverage to pressure our allies and friends to adopt similarly restrictive measures.

Pro:

(a) Hinders development of a strategically significant industry which is a key component of the Soviet's military-industrial base. Insofar as oil and gas production is an instrument of Soviet domestic and foreign policy, we should actively impede the Soviets' economic strength, political influence and military potential.

(b) Diminishes Soviet ability to earn hard currency through energy exports to the West. Frustrates the Soviets' professed aim to acquire Western technology. Promotes increased competition between the military and civilian sectors.

(c) Discourages European dependence on Soviet natural gas, thereby avoiding a potential weakening of NATO Alliance cohesion.

Con:

(a) Experts disagree on whether, without Allied cooperation, an embargo would have a significant effect on Soviet energy production, and on Soviet ability to pursue major export projects including the Siberian pipeline.

(b) Would strain US and Allied relations. Europeans would view US action as insensitive to their economic and energy needs. This would contribute to long-term Soviet objective of driving a wedge between the US and our NATO Allies and Japan.

(c) Hindering Soviet energy development could prompt further Soviet adventurism or efforts to increase their influence in the Middle East.

Option II:

The US will attempt to impede Soviet oil and gas production and export projects. Recognizing that our Allies and friends may not follow suit without unacceptably high political costs, we will use less leverage than in Option I. We would consider, after consultations with our Allies,

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adopting a multilateral approach less restrictive than implied in Option I. Until this is worked out, the US will deny export licenses for technology and equipment.

Pro:

Retains the basic benefits of Option I, but is more flexible and thereby avoids straining relations with Allies.

Con:

Contains same drawbacks as Option I, but additionally may indicate less US resolve to limit Soviet energy developments.

Option III:

The US is most concerned about major Soviet projects which contribute to Soviet production capability and our Allies' vulnerability to Soviet energy leverage (e.g., West Siberian Pipeline). The US will make a major effort with other countries to restrict exports of equipment and technology for such projects. Until this is worked out the US will deny all technology and end-use equipment exports for major projects while approving end-use equipment exports not for major projects.

Pro:

- (a) Would focus US leverage on major projects.
- (b) More likely to be accepted by Allies because it is more closely related to Western security concerns.
- (c) Offers commercial benefits to US and Allied exporters in areas not of major security concerns.

Con:

- (a) Difficult to identify discrete major projects or to prevent diversion of mobile oil/gas equipment. Opportunities for leverage may therefore be limited to those items which are essentially stationary, such as pipe, wellhead assemblies, down hole equipment, and compressors.
- (b) Effectiveness would be limited unless Allies agree to restrict comparable sales of technology and equipment to the Soviets. To the extent Allies fail to cooperate, compromises Western security.
- (c) Denies possibility to US companies of participating in major Soviet oil and gas related trade opportunities.

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Option IV

Rather than attempting to impede oil and gas production and exports, our goal will be to deny exports of technology that allow the Soviets to replicate advanced Western equipment; this technology would give them an independent capability to improve oil and gas output and infrastructure. The US will approve exports of end-use equipment.

Pro:

(a) Hinders Soviet energy independence by impeding their efforts to develop technological capabilities. Denying certain critical equipment and expertise in conjunction with our Allies could also retard Soviet oil/gas production, distribution, and exports.

(b) Reduces possibility of confrontation with Allies. Would permit continued European purchases of Soviet energy which acts as a hedge against dependence on Middle Eastern oil and gas from less reliable suppliers.

(c) Encourages some Soviet dependence on imports of US equipment and contributes positively to the US balance of payments.

Con:

(a) Increases European reliance on Soviet energy, which, regardless of any safety net, could to some extent make our Allies more vulnerable to Soviet pressure.

(b) To some extent, supports inefficient Soviet civilian sector by giving USSR access to equipment it chooses not to develop, thereby perhaps facilitating resource allocation to the military.

(c) Prevents US companies from competing for some Soviet oil and gas related trade opportunities, and creates disincentives for the Soviets to seek US imports.

Option V:

The US will lift special foreign policy controls on the export of oil and gas technology and equipment. (Existing strategic controls under COCOM will remain in place, some of which may incidentally cover equipment and technology for oil and gas production and exploration).

Pro:

(a) Promotes the expansion of world energy supplies and helps reduce pressures on Free World oil prices, thereby aiding Western economic growth.

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POLICY OPTIONS PAPER
US Position on the Siberian Pipeline

ISSUE: What position should the U.S. adopt towards the proposed pipeline designed to supply Siberian natural gas to Western Europe?

OPTION I

The U.S. will signal its disapproval of the project by denying all exports to the USSR for the pipeline, and press our allies to cancel further project negotiations.

PRO

- (a) Heads off potential Western European dependence on Soviet energy supplies, reducing the likelihood for Soviet leverage and European vulnerability.
- (b) Indicates unambiguously that the U.S. is determined to hamper development of a strategically significant Soviet industry by denying the equipment and expertise to accelerate development of Soviet gas reserves, the most readily available means to replace hard currency earnings from declining oil exports.
- (c) Contributes to Soviet economic difficulties by promoting resource allocation debate between Soviet military and civilian sectors.

CON

- (a) Creates tension between the U.S. and its Allies and could contribute to the long-term Soviet objective of separating the U.S. from Western Europe. Severely limits U.S. ability to influence the details of the project and the safety net should the Europeans proceed despite our objections.
- (b) The Western Europeans are committed to the project and would likely proceed despite U.S. opposition, unless the U.S. were prepared to apply leverage at the highest levels and to offer an "incentive package" to offset the Western European loss of potential energy supplies and related export contracts from the USSR.
- (c) Experts disagree on whether, without Allied cooperation, an embargo would have a significant effect on Soviet energy production, and on Soviet ability to pursue major export projects including the Siberian pipeline.

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(b) Provides fewer incentives for the USSR to adopt an adventuristic policy towards the Persian Gulf and other oil producing regions.

(c) Promotes Soviet dependence on US imports and contributes positively to the US balance of payments.

Con:

(a) Signals our Allies and the Soviets that we are less concerned than before about Soviet policies.

(b) Supports inefficient Soviet civilian sector by giving USSR access to equipment and technology it chooses not to develop, thereby facilitating resource allocation to the military.

(c) Contributes to continued Soviet energy supplies to Eastern Europe.

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OPTION II

The U.S. will communicate to our Allies and friends that we oppose the project, will withhold relevant export licensing, and encourage them to do the same, until our Allies have committed to constructing an adequate safety net of emergency supply.

PRO

- (a) Indicates U.S. concern about major Soviet projects which contribute to Soviet energy production capabilities and our Allies' vulnerability to Soviet energy leverage.
- (b) Offers U.S. more time to encourage Europeans to derail, delay or scale-down the project, and to work with them to explore alternate energy sources and an emergency safety net.
- (c) Heads off increased Western European dependence on Soviet energy supplies and reduces the likelihood of Soviet leverage.

CON

- (a) U.S. might appear to be waffling. Does not clearly indicate to our Allies the degree of U.S. concerns regarding the strategic implications of expanded European dependence on Soviet energy.
- (b) Contributes to the development of a vital sector of the Soviet economy, thereby enhancing Soviet economic strength, political influences, and military potential.
- (c) Even with a safety net, the pipeline would expand East-West trade links and could reduce Western European willingness to actively oppose the Soviets.

OPTION III

The U.S. recognizes its inability to cancel or significantly delay the pipeline project. The U.S. will, however, work with its allies and friends to minimize the strategic implications of the project.

PRO

- (a) U.S. would appear sensitive to Western European economic and energy needs and their desire to diversify energy supplies. Avoids possibility

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of straining relations with these Allies, who are committed to the project but are cognizant of the need to develop a safety net. U.S. leverage could be used to influence further the details of the project and safety net.

- (b) If Europeans scale back the pipeline sufficiently and develop adequate safety provisions, the West's leverage as a unified buyer could exceed that of the USSR as a seller.
- (c) Promotes expansion of world energy supplies and alleviates European dependence on OPEC resources. Also reduces possibility of economically-motivated Soviet adventurism in the Middle East.

CON

- (a) Sends an improper signal to our Allies and to the Soviet Union regarding U.S. views toward the USSR, and implicit U.S. acceptance of Western exports for the development of Soviet energy resources
- (b) If an adequate safety net is not developed, allows possibility of Soviet political leverage over six Western European countries, and reduces likelihood of European opposition to the USSR on key international issues.
- (c) Provides for continued high level of Soviet hard currency earnings which could range from \$5-15 billion annually, thereby making it easier for Soviet leaders to allocate resources to the military sector.

OPTION IV

Adopt a laissez faire approach on the pipeline, allowing market considerations to determine European energy import and energy security policies.

PRO

- (a) Avoids friction with key Allies on East-West energy relations.
- (b) Reduces Soviet energy incentives for adopting an adventurist policy towards the Persian Gulf and other producing areas.
- (c) Enables U.S. firms to compete for commercial opportunities generated by the project.

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Con

- (a) Signals to our Allies and the Soviets that we are less concerned than before about Soviet policies and enhances Soviet ability to manipulate commercial relations to their political advantage over the longer term.
- (b) Increases European dependence on Soviet energy and weakens Allies' ability to resist Soviet pressure.
- (c) Supports inefficient Soviet energy sector by giving USSR access to equipment and technology it chooses not to develop, thereby easing resource allocation to the civilian sector.

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POLICY OPTIONS PAPER

License for Caterpillar Company

To Export 100 Pipelayers to the Soviet Union

ISSUE: Should the United States Government grant a license to the Caterpillar Tractor Company for the export of 100 pipelayers to the Soviet Union?

BACKGROUND: The Carter Administration in 1978 imposed license requirements on the export of oil and gas technology and equipment to the USSR, and tightened controls following the Soviet invasion of Afghanistan. These controls are based on foreign policy considerations, and have not been adopted by our Allies and other equipment and technology exporters. Prior to the imposition of controls Caterpillar sold over 900 pipelayers to the USSR.

On November 15, 1980, the President directed that a license be approved for Caterpillar to export 200 large-diameter pipelayers, valued at \$79 million, to the Soviet Union for use on the construction of a gas pipeline linking West Siberia and six Western European countries. On January 26, 1981, Caterpillar requested an amendment to that license. The amended application seeks approval of a license to export 100 pipelayers, valued at \$40 million, for use on Soviet petroleum projects other than the Siberian pipeline. The amended application states that the 100 pipelayers would be used as replacement units on the following projects:

-- 30 units for use in West Siberia on construction of main and feeder lines of the Urenjorj project to carry gas from West Siberia to Moscow;

-- 25 units for use in Central Asia on construction of a local oil pipeline;

-- 45 units for use in European USSR on the western end of the Urenjorj project from Yaroslavl to Polotsk.

The amendment request was circulated for interagency review on March 4, 1981. Commerce, in circulating the case for review, recommended that the license, if approved, contain the condition that no military or military-support use of the pipelayers be permitted, and that an end-use statement to that effect be required. The case was subsequently discussed without agreement at the Assistant Secretary level in the Commerce-chaired Advisory Committee on Export Policy.

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Under the time limits for licensing decision set forth in the Export Administration Act of 1979, the Government has until early August to decide this case. However, Caterpillar has already missed contract delivery deadlines and feels that it must have an early decision in order to prevent Soviet cancellation of the contract, and consequent Japanese replacement sales to the USSR. Komatsu, a Japanese firm, is currently the only non-U.S. producer of pipelaying equipment and has sold over 500 pipelayers to the USSR in the past ten years.

OPTION I

Deny the Caterpillar export license application.

PRO

(A) Reduces Soviet capability to carry out oil and gas projects with long range strategic implications. Impedes Soviet economic strength, political influence, and military potential.

(B) Despite end-use assurances, inherent fungibility of pipelayers means that they could be used in developing Soviet military infrastructure.

(C) Signals that US desires to inhibit Soviet energy production.

(D) Denies USSR access to equipment it chooses not to develop, facilitating resource allocation to military sector.

CON

(A) Without cooperation from Japan, US license refusal would have no appreciable effect because Japanese could supply pipelayers.

(B) Pipelayers have no clear cut military application and their relation to enhancing Soviet military capability is tenuous.

(C) Possibility that Caterpillar and other US firms will be denied opportunity for future sales to the USSR. Key Congressional leaders Percy and Michel support sales.

(D) Given US lifting of grain embargo, US refusal of export license could appear inconsistent.

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